

FDIC State Profile

Fall 2005

Alabama

Employment growth in Alabama has moderated.

- Alabama's economic performance moderated through mid-year 2005 (see Chart 1). In second quarter 2005, employment was up 1.6 percent from a year earlier, on par with the national average. While the state had earlier enjoyed several quarters of above average job gains, employment only recently approached its pre-recession peak—even as the state's population has increased by more than 75,000 since 2001 (see Chart 2).
- Economic growth varied significantly across the state in second quarter 2005. Buoyed by continued strength in the auto industry, **Tuscaloosa** led the state's metropolitan areas in employment growth. In contrast, north-central metro areas (**Anniston, Birmingham, Decatur, and Gadsden**) saw only weak gains. Although none of the state's metropolitan areas saw year-over-year job losses, several rural counties continued to shed jobs.

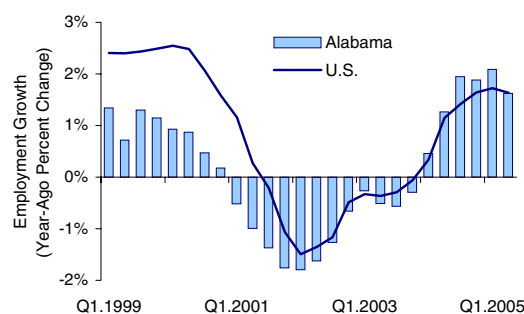
Hurricane Katrina inflicts damages on the Southeast.

- Alabama sustained significant damages from Hurricane Katrina. As of September 10, 2005, FEMA had declared ten counties in Alabama eligible for public and individual assistance with another twelve designated eligible for public assistance. The greatest damages occurred in Baldwin, Mobile, and Washington Counties. Additional indirect implications include higher energy costs, supply and distribution disruptions, and the temporary or permanent absorption within the state of residents dislocated by the storm.

Residential construction has played an important role.

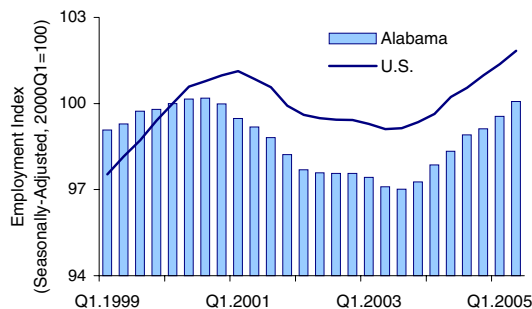
- Despite accounting for less than 3 percent of total employment, homebuilding has played a critical role in Alabama's economic recovery. Between the end of 2001 and 2004, residential construction-related employment directly accounted for nearly one-third of the 17,440 total net gain in private employment.¹ Indirectly, the industry's

Chart 1: Job Growth in Alabama Remains Healthy



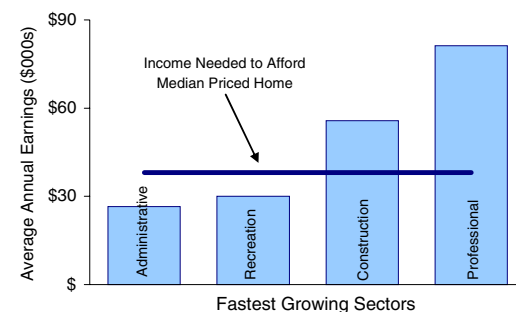
Source: Bureau of Labor Statistics

Chart 2: Employment in Alabama Is Approaching Its Pre-Recession Peak



Source: Bureau of Labor Statistics

Chart 3: Low Incomes in Alabama's Fastest Growing Sectors May Constrain Affordability



Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Economy.com (2004 data)

¹Residential construction-related employment includes residential construction and specialty contractors; mortgage lenders and brokers; and residential real estate agents, property managers, and appraisers.

importance has been further amplified by the ripple effect it has caused in other sectors of the economy.

- Homebuilding plateaued through the first half of 2005, with permit issuance down slightly from year-ago levels. Home prices continued to appreciate but at a rate less than half the national average. Still, limited affordability issues may persist as average earnings in two of the fastest growing sectors of the state's economy were below the income level needed to purchase a median priced home on conventional terms in 2004 (see Chart 3).
- According to the Office of Federal Housing Enterprise Oversight, home prices appreciated 7.5 percent for the 12 months ending June 30, 2005. Modest housing appreciation enabled the traditional relationship between home prices and apartment rents in Birmingham to remain intact, unlike many metro areas in the Southeast. Since 2001, the price-to-annualized rent ratio has remained largely stable (see Chart 4).

Small business performance measures vary.

- The net number of small businesses in Alabama grew nearly 3.5 percent in 2004.² The booming residential real estate market is influencing the growth of some small businesses. For example, landscaping and lawn service firms in the state, which have an average of seven employees, increased jobs by 3.6 percent in 2004, much higher than the 1.8 percent increase in overall private payroll jobs.
- Overall business lending at community banks in Alabama has generally been steady after a sharp drop-off in 2001.³ Small business loans grew less than 1 percent from a year ago, well below the 3.7 percent national growth rate for all commercial banks. The share of small business loans as a percent of all business loans has trended downward since 2001 (see Chart 5).

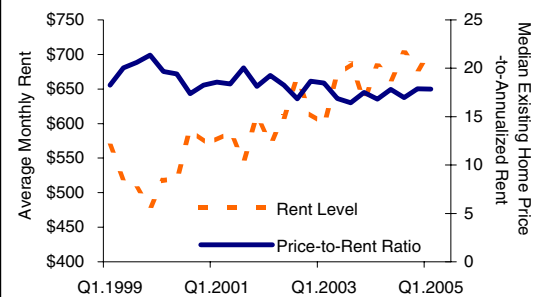
Community banks continue their solid performance.

- Overall, banking conditions at Alabama community banks were solid. Profitability was sound as return on assets gained 10 basis points over the 12-month period to 1.25 percent. Despite an increase in funding costs, net interest margins improved because of strong loan growth. After relatively flat performance the past few years, margins rose to 4.17 percent in second quarter 2005, up from 4.04 percent two years prior.

A shift in new deposit funding may lead to higher costs.

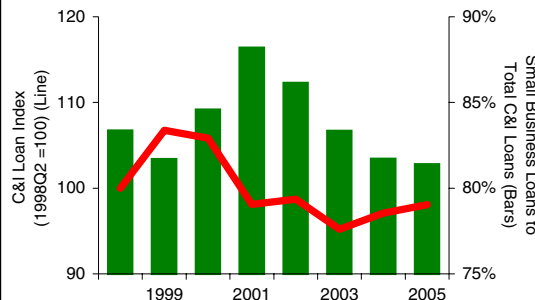
- Alabama community banks may experience higher funding costs as the mix of new deposits is shifting to higher cost time deposits (see Chart 6). Depositors are moving into higher yielding products as the differential between holding money in lower yielding, but more liquid, transaction or money market deposit accounts has widened with the recent increase in short-term interest rates. The change in preference by depositors has contributed to the rise in the cost of deposits to 2.17 percent for the 12 months ending June 30, 2005, from 1.80 percent a year ago.

Chart 4: Birmingham Apartment Rents Have Kept Pace With Home Price Appreciation



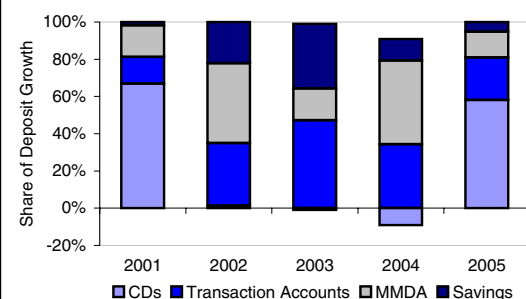
Source: National Association of Realtors, Torto Wheaton Research, Economy.com

Chart 5: The Share of Small Business Loans Has Fallen at Alabama Community Banks



Source: FDIC (Data as of June 30th)
(Small Business Loans have an Original Balance of \$1 Million or Less)

Chart 6: New Deposit Funding Mix May Lead to Higher Costs at Alabama Community Banks



Source: FDIC (Data as of June 30th)

²"Small Business Profile: Alabama," U.S. Small Business Administration, Office of Advocacy, 2004 and 2005.

³Community banks are insured commercial banks with assets of \$1 billion or less.

Alabama at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.6%	2.1%	1.3%	1.4%	-0.4%
Manufacturing (15%)	2.1%	2.2%	-1.7%	-1.0%	-4.4%
Other (non-manufacturing) Goods-Producing (6%)	3.4%	4.3%	2.9%	3.3%	-0.8%
Private Service-Producing (60%)	1.7%	2.2%	2.2%	2.2%	0.3%
Government (19%)	0.5%	0.8%	0.2%	0.4%	1.1%
Unemployment Rate (% of labor force)	4.4	5.1	5.6	5.6	5.8

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	6.3%	6.8%	6.5%	5.6%	4.1%
Single-Family Home Permits	-5.7%	1.7%	24.0%	16.4%	10.5%
Multifamily Building Permits	54.7%	0.0%	50.0%	32.7%	7.3%
Existing Home Sales	14.0%	15.5%	20.4%	19.5%	14.0%
Home Price Index	7.5%	6.0%	3.3%	4.2%	4.1%
Bankruptcy Filings per 1000 people (quarterly annualized level)	9.59	9.65	9.41	9.30	9.12

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	160	160	163	164	162
Total Assets (in millions)	214,837	181,057	222,684	237,298	214,750
New Institutions (# < 3 years)	9	7	8	7	6
Subchapter S Institutions	27	26	23	24	23

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.49	1.76	2.10	1.99	2.68
ALLL/Total Loans (median %)	1.28	1.33	1.35	1.31	1.36
ALLL/Noncurrent Loans (median multiple)	2.47	2.19	1.82	1.86	1.48
Net Loan Losses / Total Loans (median %)	0.10	0.07	0.16	0.24	0.35

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	10.01	9.89	9.40	9.61	9.32
Return on Assets (median %)	1.28	1.17	1.10	1.12	1.04
Pretax Return on Assets (median %)	1.72	1.58	1.56	1.54	1.47
Net Interest Margin (median %)	4.15	4.04	4.07	4.12	4.02
Yield on Earning Assets (median %)	6.10	5.79	5.61	5.70	5.86
Cost of Funding Earning Assets (median %)	2.01	1.85	1.56	1.63	1.85
Provisions to Avg. Assets (median %)	0.15	0.12	0.15	0.21	0.24
Noninterest Income to Avg. Assets (median %)	0.74	0.70	0.75	0.73	0.72
Overhead to Avg. Assets (median %)	2.78	2.74	2.79	2.84	2.80

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	61.9	59.9	60.7	60.3	60.8
Noncore Funding to Assets (median %)	26.1	24.8	26.1	25.4	25.2
Long-term Assets to Assets (median %, call filers)	18.5	20.2	22.9	20.9	23.2
Brokered Deposits (number of institutions)	52	49	50	54	46
Brokered Deposits to Assets (median % for those above)	4.6	4.9	4.3	5.1	4.3

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	77.5	78.3	84.0	79.7	89.3
Commercial Real Estate	190.9	193.8	187.6	191.1	183.4
Construction & Development	36.6	32.3	26.8	31.6	26.2
Multifamily Residential Real Estate	4.0	3.8	3.1	4.1	2.6
Nonresidential Real Estate	135.3	131.3	128.0	134.5	125.3
Residential Real Estate	170.1	174.1	176.3	175.1	175.9
Consumer	59.8	62.8	65.4	64.5	66.7
Agriculture	10.8	10.4	11.5	10.1	10.7

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Birmingham-Hoover, AL	39	20,141	< \$250 million	126 (78.8%)
Montgomery, AL	19	4,810	\$250 million to \$1 billion	26 (16.3%)
Mobile, AL	13	4,803	\$1 billion to \$10 billion	4 (2.5%)
Huntsville, AL	14	4,480	> \$10 billion	4 (2.5%)
Columbus, GA-AL	15	4,279		